

# **The Lowdown on Reducing Your Interest Rates While at the Defense Language Institute**

Prepared by your Legal Assistance Office

Do you have a debt bearing interest charges you incurred before you enlisted? Are you having trouble paying it off? You may be able to reduce the interest rate on a pre-service loan to 6% retroactive to the date you entered active duty. This interest rate limit is a tremendous benefit of one of the provisions of the Soldiers' and Sailors' Civil Relief Act. The only non-qualifying loans are federally guaranteed student loans.

The Legal Assistance Office at building 275 (phone 242-5083) and Education Center at building 630 (phone 242-5325) have a sample letter you may use to write to your creditors informing them of the federal legal requirement to lower the interest rate, if your earnings are less now that you are in the military. The Education Center provides computers to enable you to print your own original letter.

You must attach a copy of your order to active duty. The letter properly asks the creditor to apply any excess interest you have already paid to the principal. State your pre-service and current military income and attach tax returns or pay statements so the creditor can do its own comparison. Send it certified return receipt. The longer you wait to take advantage of this benefit, the more often the creditor moves in slow motion to grant your request and recompute your loan.

A few lending institutions strongly dislike this provision and will seek to deny your request on bogus grounds such as "it only applies in wartime" and "you're not a reservist". The creditor may play sneaky and say you don't have to pay the excess over 6% and apply a lump-sum reduction at the end of the loan while requiring the service member to make the same monthly payments. When your legitimate request for an interest rate reduction is denied, make an appointment to see your legal assistance attorney at 242-5083/4. If your letter is not answered within six weeks, follow up, sending a copy of your first letter and a copy of the postal green card return receipt which proves the company received it.

## **SSCRA 6% CAP SAMPLE LETTER**

[Send certified return receipt]

(Name and address of creditor)

Reference: Name \_\_\_\_\_

Account # \_\_\_\_\_

date

Dear Sir or Madam:

I incurred this debt prior to my entry into the Armed Forces at a time when I was earning substantially more than I am now. My pre-service earnings were (\$\_\_\_\_\_per month/year.) My military earnings are (\$\_\_\_\_\_per month/year.) (See attached income documentation.) Therefore, my military service has substantially affected my ability to make the payments that I agreed to make while a civilian. Accordingly, I request that you agree to accept monthly payments reflecting interest charged at 6% per annum on this account until my financial situation while in the military significantly improves or I am discharged from the service, at which time my payments will increase.

Please be advised that I entered active duty on (date) and am presently on active duty assigned to (unit). Enclosed is the order placing me on active duty.

Under the Soldiers' and Sailors' Civil Relief Act of 1940, 50 U.S.C. Appendix, Section 526, there is a six percent per annum ceiling on interest charges (including service charges, renewal charges and fees) during a service member's service if the obligation was made prior to the date of entry onto active duty and the active duty materially affects the ability to pay. Since entering active duty, I have experienced a decrease in salary, adversely affecting my ability to pay. Thus, the existing balance of my obligation when I entered active duty may not have interest charged at a rate greater than six percent per annum. Please ensure that your records reflect this statutory ceiling and that any excess charge is withdrawn effective (date entered active duty). Please apply the excess that I have paid since that date to the principal.

I am eager to resolve this matter with you and regret very much that circumstances have arisen which prevent full payment to you on the original schedule. I will advise you immediately of any improvements in my financial condition which will enable me to pay off this debt more quickly.

Please inform me as soon as possible concerning your action on this reduction of future payments and reapplication of past excess payments to principal.

Sincerely,  
(name, rank, address)  
Enclosed: Earnings documents  
Copy active duty entry orders